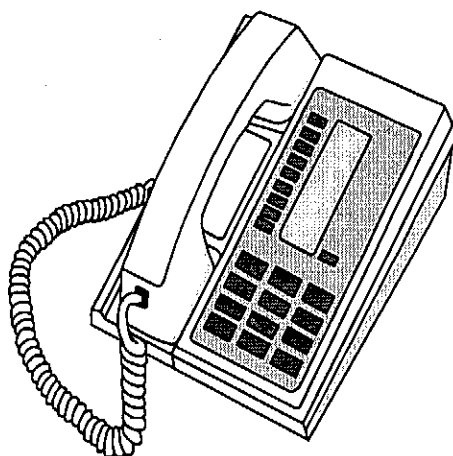


YEAR ENDING DECEMBER 2007

**ANNUAL REPORT
OF
SOUTHERN MONTANA TELEPHONE COMPANY**

TELEPHONE UTILITY



**TO THE
PUBLIC SERVICE COMMISSION
STATE OF MONTANA
1701 PROSPECT AVENUE
P.O. BOX 202601
HELENA, MT 59620-2601**

2007 Telephone Annual Report

Instructions

General

1. A Microsoft EXCEL workbook of the annual report is being provided on our website for your convenience. The workbook contains the schedules of the annual report. Each schedule is on the worksheet named that schedule. For example, Schedule 1 is on the sheet titled "Schedule 1". By entering your company name in the cell named "Company" of the first worksheet, the spreadsheet will put your company name on all the worksheets in the workbook. The same is true for inputting the year of the report in the cell named "YEAR". You can "GOTO" the proper cell by using the F5 key and selecting the name of the cell. You may also obtain these instructions and the report in both an Adobe Acrobat® format and as an EXCEL® file from our website at <http://psc.mt.gov/> under the "Reports" section on that page. Please be sure you use the 2006 report form.
2. Use of the EXCEL® file is optional. There are macros built into the workbook to assist you with the report.
3. All forms must be filled out in permanent ink and be legible. Note: Even if the computer disk is used, a printed version of the report shall be filed. **Please submit one unbound copy of the annual report along with the regular number of annual reports that you submit.** This aids in scanning the report so that it may be published on our web site. The orientation and margins are set up on each individual worksheet and should print on one page. If you elect not to use the disk, please format your reports to fit on one 8.5" by 11" page with the left binding edge (top if landscaped) set at .85", the right edge (bottom if landscaped) set at .4", and the remaining two margins at .5".
4. Unless otherwise indicated, all information required in these schedules shall be from the accounts prescribed in 47 C.F.R. Part 32 and the definitions and instructions therein will apply to this report wherever applicable.
5. Information on financial schedules may be rounded to thousands of dollars for companies with over 5,000 access lines. Companies submitting schedules rounded to thousands should so indicate at the top of the schedule.
6. Where more space is needed or more than one schedule is needed additional schedules may be attached and should be included directly behind the original schedule to which it pertains and be labeled accordingly (for example, Schedule 1A).
7. The information required with respect to any statement shall be furnished as a minimum requirement to which shall be added such further information as is necessary to make the required schedules not misleading.

8. The following schedules should be filled out with information on a total company basis:

Schedules 1 - 4
Schedule 10
Schedules 13 - 17
Schedule 19
Schedule 20, Page 1 of 2
Schedules 33 and 34

All other schedules should be filled out with Montana specific data. Financial schedules should include all amounts originating in Montana or allocated to Montana from other jurisdictions.

9. All companies owned by another company shall attach a corporate structure chart of the holding company.

10. The following schedules are not required to be filled out or submitted by companies with less than 5,000 access lines:

Schedule 6
Schedules 17 and 18
Schedule 21

11. Schedules that have no activity during the year or are not applicable to the respondent should be marked as not applicable and submitted with the report.

12. Companies with under 5,000 lines may use summary accounts and should leave lines for subaccounts blank. Summary accounts are noted with an asterisk and subaccounts that are not required are noted with a caret.

13. Companies with over 5,000 lines must complete schedules to all required subaccount detail.

14. FCC Form M sheets may not be substituted in lieu of completing annual report schedules.

15. Common sense must be used when filling out all schedules.

Specific Instructions

Schedules 6, 7, 8, 18, 29, 30 and 35

1. The Montana Public Service Commission approved intrastate depreciation rates must be utilized in the preparation of these schedules.

Schedules 3 through 9

1. **Schedules 3, 4, and 9** should include all notes to the financial statements required by the FCC or included in the financial statements issued as audited financial statements. These notes should be included in the report directly behind the schedules and should be labeled appropriately (Schedule 3A, etc.).

2. **Schedule 5** may be omitted for companies doing business only in Montana.
3. **Schedule 6** is not required for companies with under 5,000 lines.
4. **Schedule 7** must be completed by all companies. For companies under 5,000 lines, this schedule may be completed on a total state basis. Any such company completing the form on a total state basis shall indicate this fact clearly on the form.
5. **Schedule 8** - Companies with less than 5,000 lines are not required to fill out the intrastate portion. The regulated rate base must be separated from the deregulated rate base but this may be done on a total state basis. Any company so doing shall clearly indicate this on the form.
6. Only accounts designated on **Schedule 8** may be included in rate base. Only companies who have specifically been authorized in a Commission order to include cash working capital in rate base may fill out line 8 on Schedule 8. Cash working capital must be calculated using the methodology approved in the Commission order. The most recent Commission Order, and Docket, specifying cash working capital shall be noted on the schedule.
7. **Schedule 9** - Instructions to complete are similar to those used for the Statement of Cash Flows in the FCC Form M.

Schedule 10

1. For the purpose of this schedule, nonofficial companies shall include any company in which the respondent has an ownership interest which does not meet the definition of an affiliated company set out in 47 C.F.R. Section 32.9000. This schedule shall not include telecommunications accounts receivable from other customers.

Schedule 11

1. All amounts listed in Column f that represent individual items for which the higher of cost or market value was in excess of \$50,000 for companies with under 5,000 lines and in excess of \$100,000 for companies with over 5,000 lines must be fully explained in notes to this schedule. The explanation must include the plant description and location, the original cost, the net book cost, the market value, the value at which it was transferred or the price at which it was sold, and the party to which it was transferred or sold.

Schedule 12

1. Respondents shall list each item amounting individually to \$100,000 or more and report all others in the aggregate.
2. Amounts in Column f relating to individual items exceeding \$50,000 shall be fully explained.

Schedule 15

1. Line 1 must be completed by all companies for the most recent calendar year. The retention and price/earnings ratios shall be calculated on a year end basis. Enter the actual year end market price in the "Year Ended" row. If the computer disk is used, enter the year end market price in the "High" column.
2. Lines starting at 9 shall be completed for each of the twelve months of the report year for all companies with over 5,000 access lines. Earnings per share and dividends per share shall be reported on a quarterly basis and entries shall be made only to the months that end the respective quarters (for example, March, June, September, and December.)

Schedule 19

1. All companies are required to submit this form. Companies with more than one plan (for example, both a retirement plan and a deferred savings plan) shall complete a schedule for each plan.
2. Companies with defined benefit plans must complete the entire form using FASB 87 and 132 guidelines.
3. Interest rate percentages shall be listed to two decimal places.

Schedule 20

1. All changes to the employee benefit plans shall be explained in a narrative on lines 15 and 16. All cost containment measures implemented in the reporting year shall be explained and quantified in a narrative on lines 15 & 16. All assumptions used in quantifying cost containment results shall be disclosed.
2. The schedule shall be filled out using FASB 106 and 132 guidelines.

Schedule 21

1. Respondents shall disclose all payments made during the year where the aggregate payment to the recipient was \$25,000 or more. Payments must include fees, retainers, commissions, gifts, contributions, assessments, bonuses, subscriptions, allowances for expenses or any other form of payment for services or as a donation.

Schedule 23

1. Respondents shall provide an attached sheet detailing the type and corresponding number of access lines for all entries in Column L (Other). At the company's option, it may file for this information to be considered proprietary, however, the totals are not considered proprietary and need to be filed in the public annual report.

Schedule 24

1. Column (b). For each wire center that has a configuration of "Remote", Column (b) shall also reflect the respective "Host".
2. Column (c). Examples of Types of Switches are: Digital, Step by Step, and Crossbar.

Schedule 25

1. This schedule must be completed by all companies for the year following the reporting year.

Schedule 25a

1. This schedule should reflect the amount of total dollars spent in Montana during the reporting year and booked to the accounts listed on the schedule per the Code of Federal Regulations (CFR), Title 47, Chapter 1, Part 32. Universal System of Accounts.

Schedule 26

1. Respondents shall either report construction technicians and splicers as separate categories or footnote the appropriate categories and indicate the number of (1) construction technicians; and (2) splicers.

Schedule 27

1. Include in column (d) ALL additional forms of compensation, including, but not limited to: deferred compensation, deferred savings plan, profit sharing, supplemental or non-qualified retirement plan, employee stock ownership plan, restricted stock, stock options, stock appreciation rights, performance share awards, dividend equivalent shares, mortgage payments, use of company cars or car lease payments, tax preparation consulting, financial consulting, home security systems, company-paid physicals, subscriptions to periodicals, memberships, association or club dues, tuition reimbursement, employee discounts, and spouse travel.
2. The above compensation items shall be listed separately. Where more space is needed additional schedules may be attached and shall be included directly behind the original schedule to which it pertains.

Schedule 28

1. Respondents shall provide all executive compensation information in conformance with that required by the Securities and Exchange Commission (SEC) (Regulation S-K Item 402, Executive Compensation).
2. Include in column (d) ALL additional forms of compensation, including, but not limited to: deferred compensation, deferred savings plan, profit sharing, supplemental or non-qualified retirement plan, employee stock ownership plan, restricted stock, stock options, stock appreciation rights, performance share awards, dividend equivalent shares, mortgage payments, use of company cars or car lease payments, tax preparation consulting, financial consulting, home security systems, company-paid physicals, subscriptions to periodicals, memberships, association or club dues, tuition reimbursement, employee discounts, and spouse travel.
3. All items included in Column (d) - Other Compensation shall be listed separately. Where more space is needed additional schedules may be attached and shall be included directly behind the original schedule.

4. In addition, respondents shall attach a copy of the executive compensation information provided to the SEC.

Schedule 29

1. Information from this schedule is consolidated with information from other Utilities and reported to the National Association of Regulatory Utility Commissioners (NARUC). Your assistance in completing this schedule, even though information may be located in other areas of the annual report, expedites reporting to the NARUC and is appreciated.

Schedule 30 and 30a

1. If the total of lines 35 on these schedules differs from Line 31 on Schedule 7 please reconcile the difference.

Schedules 33 and 34

1. Respondents shall report all transactions with affiliated companies.
2. Column (c). Respondents shall indicate in column (c) the method used to determine the price. Respondents shall indicate if a contract is in place between the Affiliate and the Utility. If a contract is in place, respondents shall indicate the year the contract was initiated, the term of the contract and the method used to determine the contract price.
3. Column (c). If the method used to determine the price is different than the previous year, respondents shall provide an explanation, including the reason for the change.

Schedule 35

1. Respondents shall provide an attached sheet detailing the account and the amount for all entries made to Lines 9 and 16.
2. Only companies who have specifically been authorized in a Commission Order to include cash working capital in rate base may include cash working capital in lines 9 or 16. Cash working capital must be calculated using the methodology approved in the Commission Order. The Commission Order specifying cash working capital shall be noted on the attached sheet.
3. Respondents shall indicate, for each adjustment on lines 30 through 42, if the amount is updated or if it is from the last rate case. All adjustments shall be calculated using Commission methodology.

Schedule 36

1. Respondents shall list the amount of tax accrued or paid for the fiscal year attributable to Montana sources for each of the listed taxes

2. Respondents shall list the amount of Universal Service Funds received from Montana and from the federal government.

Telephone Annual Report

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General Information

Year: 2007

| | | |
|-------------------------|--|------------------------------------|
| 1 | Legal Name of Respondent: | Southern Montana Telephone Company |
| 2 | Name Under Which Respondent Does Business: | Southern Montana Telephone Company |
| 3 | Date of Incorporation: | 1944 |
| 4 | Address to send Correspondence Concerning Report: | PO Box 205; Wisdom, MT 59761 |
| 5 | Person Responsible for This Report: | Steve Kramer, General Manager |
| 5a. | Telephone Number: | 406-689-3333 |
| Control Over Respondent | | |
| 1 | If direct control over the respondent was held by another entity at the end of year provide the following: | |
| | 1a. Name and address of the controlling organization or person: | |
| | 1b. Means by which control was held: | |
| | 1c. Percent Ownership: | |

| | Board of Directors | | |
|----------|---|------------------------------|------------------------------|
| Line No. | Name of Director and Address (City, State) (a) | | Fees Paid During Year (b) |
| 1 | Robert G. Helming | PO Box 205; Wisdom, MT 59761 | 9,000 |
| 2 | Conrad Eklund | PO Box 205; Wisdom, MT 59761 | 7,500 |
| 3 | Tara Helming | PO Box 205; Wisdom, MT 59761 | 1,500 |
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| 16 | | | |
| 17 | | | |
| 18 | Chairman of the Board: | Robert G. Helming | |
| 19 | | | |
| 20 | | | |

Officers

Year: 2007

| Line No. | Title of Officer (a) | Department Over Which Jurisdiction is Exercised (b) | Name and Address of Person Holding Office at Year End (c) |
|----------|-------------------------|--|--|
| 1 | President | All Departments | Robert G. Helming, Wisdom, MT 59761 |
| 2 | Secretary/Treasurer* | All Departments | Conrad Eklund, Wisdom, MT 59761 |
| 3 | Secretary/Treasurer | All Departments | Tara Helming, Wisdom, MT 59761 |
| 4 | | | |
| 5 | | | |
| 6 | * Conrad is gone now. | | |
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Total Company Balance Sheet

Year: 2007

| Line No. | Acct. No. (a) | Description (b) | This Year (c) | Last Year (d) |
|----------|---------------|---|---|---------------|
| 1 | | CURRENT ASSETS: | (See attached Audited Financials for all of SCHEDULE 3) | |
| 2 | 1120 | Cash and Equivalents | | |
| 3 | 1180 | Telecommunications Accounts Receivable - Net | | |
| 4 | 1190 | Other Accounts Receivable - Net | | |
| 5 | 1200 | Notes Receivable - Net | | |
| 6 | 1210 | Interest and Dividends Receivable | | |
| 7 | 1220 | Materials and Supplies | | |
| 8 | * 1280 | Prepayments | | |
| 9 | ^ 1290 | Prepaid Rents | | |
| 10 | ^ 1300 | Prepaid Taxes | | |
| 11 | ^ 1310 | Prepaid Insurance | | |
| 12 | ^ 1320 | Prepaid Directory Expenses | | |
| 13 | ^ 1330 | Other Prepayments | | |
| 14 | 1350 | Other Current Assets | | |
| 15 | | Total Current Assets | | |
| 16 | | NONCURRENT ASSETS: | | |
| 17 | 1401 | Investments in Affiliated Companies | | |
| 18 | 1402 | Investments in Nonaffiliated Companies | | |
| 19 | 1406 | Nonregulated Investments | | |
| 20 | 1407 | Unamortized Debt Issuance Expense | | |
| 21 | 1408 | Sinking Funds | | |
| 22 | 1410 | Other Noncurrent Assets | | |
| 23 | 1438 | Deferred Maintenance and Retirements | | |
| 24 | 1439 | Deferred Charges | | |
| 25 | 1500 | Other Jurisdictional Assets - Net | | |
| 26 | | Total Noncurrent Assets | | |
| 27 | | PROPERTY, PLANT, & EQUIPMENT: | | |
| 28 | 2001 | Telecommunications Plant in Service | | |
| 29 | 2002 | Property Held for Future Telecommunications Use | | |
| 30 | 2003 | Plant Under Construction - Short Term | | |
| 31 | 2004 | Plant Under Construction - Long Term | | |
| 32 | 2005 | Telecommunications Plant Adjustment | | |
| 33 | 2006 | Nonoperating Plant | | |
| 34 | 2007 | Goodwill | | |
| 35 | 3100 | Accumulated Depreciation | | |
| 36 | 3200 | Accumulated Depreciation - Held for Future Use | | |
| 37 | 3300 | Accumulated Depreciation - Nonoperating | | |
| 38 | 3400 | Accumulated Amortization | | |
| 39 | | Net Property, Plant, & Equipment | | |
| 40 | | TOTAL ASSETS | | |

^ Subaccount of account marked with a *.

Total Company Balance Sheet

Year: 2007

| Line No. | Acct. No. (a) | Description (b) | This Year (c) | Last Year (d) |
|----------|------------------|---|------------------|------------------|
| 41 | | CURRENT LIABILITIES: | | |
| 42 | 4010 | Accounts Payable | | |
| 43 | 4020 | Notes Payable | | |
| 44 | 4030 | Advance Billing and Payments | | |
| 45 | 4040 | Customer Deposits | | |
| 46 | 4050 | Current Maturities - Long Term Debt | | |
| 47 | 4060 | Current Maturities - Capital Leases | | |
| 48 | 4070 | Income Taxes - Accrued | | |
| 49 | 4080 | Other Taxes - Accrued | | |
| 50 | 4100 | Net Current Deferred Operating Income Taxes | | |
| 51 | 4110 | Net Current Deferred Nonoperating Income Taxes | | |
| 52 | 4120 | Other Accrued Liabilities | | |
| 53 | 4130 | Other Current Liabilities | | |
| 54 | | Total Current Liabilities | | |
| 55 | | LONG-TERM DEBT: | | |
| 56 | 4210 | Funded Debt | | |
| 57 | 4220 | Premium on Long-Term Debt | | |
| 58 | 4230 | Discount on Long-Term Debt | | |
| 59 | 4240 | Reacquired Debt | | |
| 60 | 4250 | Obligations Under Capital leases | | |
| 61 | 4260 | Advances From Affiliated Companies | | |
| 62 | 4270 | Other Long-Term Debt | | |
| 63 | | Total Long-Term Debt | | |
| 64 | | OTHER LIABILITIES AND DEFERRED CREDITS: | | |
| 65 | 4310 | Other Long-Term Liabilities | | |
| 66 | 4320 | Unamort. Oper. Invest. Tax Credits - Net | | |
| 67 | 4330 | Unamort. Nonoper. Invest. Tax Credits - Net | | |
| 68 | 4340 | Net Noncurrent Deferred Oper. Income Taxes | | |
| 69 | 4350 | Net Noncurrent Deferred Nonoper. Income Taxes | | |
| 70 | 4360 | Other Deferred Credits | | |
| 71 | 4370 | Other Jurisdictional Liab. and Def. Credits | | |
| 72 | | Total Other Liabilities and Deferred Credits | | |
| 73 | | STOCKHOLDERS' EQUITY: | | |
| 74 | 4510 | Capital Stock | | |
| 75 | 4520 | Additional Paid-In Capital | | |
| 76 | 4530 | Treasury Stock | | |
| 77 | 4540 | Other Capital | | |
| 78 | 4550 | Retained Earnings | | |
| 79 | | Total Stockholders' Equity | | |
| 80 | | TOTAL LIAB. AND STOCKHOLDERS' EQUITY | | |

prepared with Schedule 3

ASSETS

| | December 31, | |
|---|---------------------|---------------------|
| | 2007 | 2006 |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 1,038,474 | \$ 761,478 |
| Investment in certificates of deposit at amortized cost | 851,026 | 762,437 |
| Subscriber receivables | 71,627 | 69,598 |
| Settlements and access accounts receivable, net of allowance for doubtful accounts of \$20,266 in 2007 and \$-0- in 2006 | 287,898 | 320,072 |
| Material and supplies | 63,538 | 56,428 |
| Other current assets | 9,129 | 9,029 |
| Total current assets | 2,321,692 | 1,979,042 |
| NONCURRENT ASSETS | | |
| Investment in available for sale securities | - | 222,513 |
| Investment in certificates of deposit at amortized cost | - | 90,000 |
| Investment in held to maturity securities | 40,000 | 40,000 |
| Investment in affiliate | - | 1,276 |
| Investment in nonaffiliates | 313,729 | 297,191 |
| Nonregulated investments | 41,628 | 41,896 |
| | 395,357 | 692,876 |
| PROPERTY, PLANT, AND EQUIPMENT | | |
| Telecommunications plant in service | 11,176,235 | 8,734,344 |
| Telecommunications plant under construction | 367,366 | 142,011 |
| | 11,543,601 | 8,876,355 |
| Less accumulated depreciation and amortization | 5,971,996 | 5,440,934 |
| | 5,571,605 | 3,435,421 |
| | \$ 8,288,654 | \$ 6,107,339 |

SOUTHERN MONTANA TELEPHONE COMPANY
BALANCE SHEET

goes with Schedule 3

LIABILITIES AND STOCKHOLDER'S EQUITY

| | December 31, | |
|---|--------------|--------------|
| | 2007 | 2006 |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 129,539 | \$ 280,095 |
| Advance billing and customer deposits | 27,663 | 37,158 |
| Current maturities of long-term debt | 304,936 | 215,899 |
| Other accrued taxes | 26,350 | 30,916 |
| Other accrued liabilities | 165,931 | 161,703 |
| Accrued interest payable | 552 | 5,513 |
| Total current liabilities | 654,971 | 731,284 |
| LONG-TERM DEBT | 3,738,976 | 1,566,764 |
| COMMITMENTS AND CONTINGENCY (Note 10) | | |
| STOCKHOLDER'S EQUITY | | |
| Common stock, \$10 par value; 2,703 shares authorized and 610 shares issued and outstanding at December 31, 2007 and 2006 | 6,100 | 6,100 |
| Paid-in capital | 3,290 | 3,290 |
| Retained earnings | 3,885,317 | 3,810,506 |
| | 3,894,707 | 3,819,896 |
| Unrealized loss on available for sale securities | - | (10,605) |
| | 3,894,707 | 3,809,291 |
| | \$ 8,288,654 | \$ 6,107,339 |

SOUTHERN MONTANA TELEPHONE COMPANY
STATEMENT OF STOCKHOLDER'S EQUITY

goes with Schedule 3

| | Total | Common Stock | Paid in Capital | Retained Earnings | Accumulated Comprehensive Income (Loss) | Comprehensive Income (Loss) |
|--|---------------------|-----------------|--------------------|----------------------|---|--------------------------------|
| Balance, December 31, 2005 | \$ 3,873,626 | \$ 6,100 | \$ 3,290 | \$ 3,942,535 | \$ (78,299) | |
| Net income | 172,530 | - | - | 172,530 | - | \$ 172,530 |
| Change in unrealized loss on available for sale securities | 17,491 | - | - | - | 17,491 | 17,491 |
| Reclassification adjustment | 50,203 | - | - | - | 50,203 | <u>50,203</u> |
| Comprehensive income | - | - | - | - | | <u>\$ 240,224</u> |
| Distributions | <u>(304,559)</u> | <u>-</u> | <u>-</u> | <u>(304,559)</u> | <u>-</u> | |
| Balance, December 31, 2006 | 3,809,291 | 6,100 | 3,290 | 3,810,506 | (10,605) | |
| Net income | 214,351 | - | - | 214,351 | - | \$ 214,351 |
| Change in unrealized loss on available for sale securities | 26,100 | - | - | - | 26,100 | 26,100 |
| Reclassification adjustment | (15,495) | - | - | - | (15,495) | <u>(15,495)</u> |
| Comprehensive income | - | - | - | - | | <u>\$ 224,956</u> |
| Distributions | <u>(139,540)</u> | <u>-</u> | <u>-</u> | <u>(139,540)</u> | <u>-</u> | |
| Balance, December 31, 2007 | <u>\$ 3,894,707</u> | <u>\$ 6,100</u> | <u>\$ 3,290</u> | <u>\$ 3,885,317</u> | <u>\$ -</u> | |

See accompanying notes.

Total Company Income Statement

Year: 2007

| Line No. | Acct. No. (a) | Description (b) | This Year (c) | Last Year (d) |
|----------|------------------|--|---|------------------|
| 1 | | REVENUES: | (See attached Audited Financials for all of SCHEDULE 4) | |
| 2 | 5000 | Basic Local Service Revenues | | |
| 3 | 5080 | Network Access Revenues | | |
| 4 | * 5100 | Long Distance Message Revenue | | |
| 5 | ^ 5110 | Unidirectional Long Distance Revenue | | |
| 6 | ^ 5120 | Long Distance Private Network Revenue | | |
| 7 | ^ 5160 | Other Long Distance Revenue | | |
| 8 | ^ 5169 | Other Long Distance Revenue Settlements | | |
| 9 | * 5200 | Miscellaneous Revenue | | |
| 10 | ^ 5230 | Directory Revenue | | |
| 11 | ^ 5240 | Rent Revenue | | |
| 12 | ^ 5250 | Corporate Operations Revenue | | |
| 13 | ^ 5260 | Miscellaneous Revenue | | |
| 14 | ^ 5270 | Carrier Billing and Collection Revenue | | |
| 15 | ^ 5280 | Nonregulated Revenue | | |
| 16 | 5300 | Uncollectible Revenue | | |
| 17 | | Total Revenues (L.2+L.3+L.4+L.9-L.16) | | |
| 18 | | OPERATING EXPENSES: | | |
| 19 | 6110 | Network Support Expense | | |
| 20 | 6120 | General Support Expense | | |
| 21 | 6210 | Central Office Switching Expense | | |
| 22 | 6220 | Operator Systems Expense | | |
| 23 | 6230 | Central Office Transmission Expense | | |
| 24 | 6310 | Information Origination/Termination Expense | | |
| 25 | * 6410 | Cable and Wire Facilities Expense | | |
| 26 | ^ 6431 | Aerial Wire Expense | | |
| 27 | ^ 6441 | Conduit Systems Expense | | |
| 28 | 6510 | Other Property, Plant & Equipment Expense | | |
| 29 | 6530 | Network Operations Expense | | |
| 30 | 6540 | Access Expense | | |
| 31 | 6560 | Depreciation and Amortization Expense | | |
| 32 | 6610 | Marketing | | |
| 33 | 6620 | Services | | |
| 34 | 6710 | Executive and Planning | | |
| 35 | 6720 | General and Administrative | | |
| 36 | 6790 | Provision for Uncollectible Notes Receivable | | |
| 37 | | Total Operating Expenses (Sum L.19 to L.36-L.26-L.27) | | |
| 38 | 7100 | Other Operating Income and Expense | | |
| 39 | 7200 | Operating Taxes | | |
| 40 | | Net Operating Income (L.17-L.37+L.38-L.39) | | |
| 41 | 7300 | Nonoperating Income and Expense | | |
| 42 | 7400 | Nonoperating Taxes | | |
| 43 | 7500 | Interest and Related Items | | |
| 44 | 7600 | Extraordinary Items | | |
| 45 | 7910 | Effects of Juris. Ratemaking Diff. - Net | | |
| 46 | 7990 | Nonregulated Net Income | | |
| 47 | | NET INCOME (L.40+L.41-L.42-L.43-L.44+L.45-L.46) | | |

^ Subaccount of the account marked with a *.

SOUTHERN MONTANA TELEPHONE COMPANY
BALANCE SHEET

goes with Schedule 4

Year Ended December 31,

| | 2007 | 2006 |
|--|-------------------|-------------------|
| OPERATING REVENUES | | |
| Local network services | \$ 186,075 | \$ 184,121 |
| Interstate access revenue | 1,609,451 | 1,513,405 |
| Intrastate access revenue | 405,697 | 410,630 |
| Long distance services | 96,590 | 70,930 |
| Carrier billing and collection | 4,087 | 6,829 |
| Miscellaneous | 1,549 | 2,574 |
| Nonregulated services | 158,300 | 132,266 |
| Uncollectible | (1,660) | (1,371) |
| | <u>2,460,089</u> | <u>2,319,384</u> |
| OPERATING EXPENSES | | |
| Plant specific operations | 483,618 | 448,324 |
| Plant nonspecific operations | 299,760 | 452,388 |
| Depreciation | 597,530 | 553,281 |
| Customer operations | 53,034 | 64,672 |
| Corporate operations | 586,597 | 415,690 |
| Other operating taxes | 46,986 | 45,501 |
| Nonregulated | 199,278 | 157,309 |
| | <u>2,266,803</u> | <u>2,137,165</u> |
| Operating income | <u>193,286</u> | <u>182,219</u> |
| Nonoperating income (expense) | | |
| Interest and dividend income | 82,935 | 102,718 |
| Gain (loss) on sale of investments | 15,495 | (50,203) |
| Allowance for funds used during construction | 15,248 | - |
| Interest expense | (91,589) | (56,390) |
| Other nonoperating expense | (1,024) | (5,814) |
| | <u>21,065</u> | <u>(9,689)</u> |
| NET INCOME | <u>\$ 214,351</u> | <u>\$ 172,530</u> |

See accompanying notes.

Montana Total State Income Statement

Year: 2007

| Line No. | Acct. No. (a) | Description (b) | This Year (c) | Last Year (d) |
|----------|------------------|--|----------------------------|------------------|
| 1 | | REVENUES: | | |
| 2 | 5000 | Basic Local Service Revenues | See Schedule 4, only in MT | |
| 3 | 5080 | Network Access Revenues | | |
| 4 | * 5100 | Long Distance Message Revenue | | |
| 5 | ^ 5110 | Unidirectional Long Distance Revenue | | |
| 6 | ^ 5120 | Long Distance Private Network Revenue | | |
| 7 | ^ 5160 | Other Long Distance Revenue | | |
| 8 | ^ 5169 | Other Long Distance Revenue Settlements | | |
| 9 | * 5200 | Miscellaneous Revenue | | |
| 10 | ^ 5230 | Directory Revenue | | |
| 11 | ^ 5240 | Rent Revenue | | |
| 12 | ^ 5250 | Corporate Operations Revenue | | |
| 13 | ^ 5260 | Miscellaneous Revenue | | |
| 14 | ^ 5270 | Carrier Billing and Collection Revenue | | |
| 15 | ^ 5280 | Nonregulated Revenue | | |
| 16 | 5300 | Uncollectible Revenue | | |
| 17 | | Total Revenues (L.2+L.3+L.4+L.9-L.16) | | |
| 18 | | OPERATING EXPENSES: | | |
| 19 | 6110 | Network Support Expense | | |
| 20 | 6120 | General Support Expense | | |
| 21 | 6210 | Central Office Switching Expense | | |
| 22 | 6220 | Operator Systems Expense | | |
| 23 | 6230 | Central Office Transmission Expense | | |
| 24 | 6310 | Information Origination/Termination Expense | | |
| 25 | * 6410 | Cable and Wire Facilities Expense | | |
| 26 | ^ 6431 | Aerial Wire Expense | | |
| 27 | ^ 6441 | Conduit Systems Expense | | |
| 28 | 6510 | Other Property, Plant & Equipment Expense | | |
| 29 | 6530 | Network Operations Expense | | |
| 30 | 6540 | Access Expense | | |
| 31 | 6560 | Depreciation and Amortization Expense | | |
| 32 | 6610 | Marketing | | |
| 33 | 6620 | Services | | |
| 34 | 6710 | Executive and Planning | | |
| 35 | 6720 | General and Administrative | | |
| 36 | 6790 | Provision for Uncollectible Notes Receivable | | |
| 37 | | Total Operating Expenses (Sum L.19 to L.36-L.26-L.27) | | |
| 38 | 7100 | Other Operating Income and Expense | | |
| 39 | 7200 | Operating Taxes | | |
| 40 | | Net Operating Income (L.17-L.37+L.38-L.39) | | |

^ Subaccount of the account marked with a *.

Montana Intrastate Income Statement

Year: 2007

| Line No. | Acct. No. (a) | Description (b) | This Year (c) | Last Year (d) |
|----------|------------------|--|-------------------------------------|------------------|
| 1 | | REVENUES: | | |
| 2 | 5000 | Basic Local Service Revenues | Company is under 5,000 access lines | |
| 3 | 5080 | Network Access Revenues | | |
| 4 | * 5100 | Long Distance Message Revenue | | |
| 5 | ^ 5110 | Unidirectional Long Distance Revenue | | |
| 6 | ^ 5120 | Long Distance Private Network Revenue | | |
| 7 | ^ 5160 | Other Long Distance Revenue | | |
| 8 | ^ 5169 | Other Long Distance Revenue Settlements | | |
| 9 | * 5200 | Miscellaneous Revenue | | |
| 10 | ^ 5230 | Directory Revenue | | |
| 11 | ^ 5240 | Rent Revenue | | |
| 12 | ^ 5250 | Corporate Operations Revenue | | |
| 13 | ^ 5260 | Miscellaneous Revenue | | |
| 14 | ^ 5270 | Carrier Billing and Collection Revenue | | |
| 15 | ^ 5280 | Nonregulated Revenue | | |
| 16 | 5300 | Uncollectible Revenue | | |
| 17 | | Total Revenues (L.2+L.3+L.4+L.9-L.16) | | |
| 18 | | OPERATING EXPENSES: | | |
| 19 | 6110 | Network Support Expense | | |
| 20 | 6120 | General Support Expense | | |
| 21 | 6210 | Central Office Switching Expense | | |
| 22 | 6220 | Operator Systems Expense | | |
| 23 | 6230 | Central Office Transmission Expense | | |
| 24 | 6310 | Information Origination/Termination Expense | | |
| 25 | * 6410 | Cable and Wire Facilities Expense | | |
| 26 | ^ 6431 | Aerial Wire Expense | | |
| 27 | ^ 6441 | Conduit Systems Expense | | |
| 28 | 6510 | Other Property, Plant & Equipment Expense | | |
| 29 | 6530 | Network Operations Expense | | |
| 30 | 6540 | Access Expense | | |
| 31 | 6560 | Depreciation and Amortization Expense | | |
| 32 | 6610 | Marketing | | |
| 33 | 6620 | Services | | |
| 34 | 6710 | Executive and Planning | | |
| 35 | 6720 | General and Administrative | | |
| 36 | 6790 | Provision for Uncollectible Notes Receivable | | |
| 37 | | Total Operating Expenses (Sum L.19 to L.36-L.26-L.27) | | |
| 38 | 7100 | Other Operating Income and Expense | | |
| 39 | 7200 | Operating Taxes | | |
| 40 | | Net Operating Income (L.17-L.37+L.38-L.39) | | |

^ Subaccount of the account marked with a *.

Montana Intrastate Regulated Income Statement

Year: 2007

| Line No. | Acct. No. (a) | Description (b) | This Year (c) | Last Year (d) |
|----------|------------------|--|------------------------------------|------------------|
| 1 | | REVENUES: | | |
| 2 | 5000 | Basic Local Service Revenues | Under 5,000 lines, see Total State | |
| 3 | 5080 | Network Access Revenues | | |
| 4 | * 5100 | Long Distance Message Revenue | | |
| 5 | ^ 5110 | Unidirectional Long Distance Revenue | | |
| 6 | ^ 5120 | Long Distance Private Network Revenue | | |
| 7 | ^ 5160 | Other Long Distance Revenue | | |
| 8 | ^ 5169 | Other Long Distance Revenue Settlements | | |
| 9 | * 5200 | Miscellaneous Revenue | | |
| 10 | ^ 5230 | Directory Revenue | | |
| 11 | ^ 5240 | Rent Revenue | | |
| 12 | ^ 5250 | Corporate Operations Revenue | | |
| 13 | ^ 5260 | Miscellaneous Revenue | | |
| 14 | ^ 5270 | Carrier Billing and Collection Revenue | | |
| 15 | ^ 5280 | Nonregulated Revenue | | |
| 16 | 5300 | Uncollectible Revenue | | |
| 17 | | Total Revenues (L.2+L.3+L.4+L.9-L.16) | | |
| 18 | | OPERATING EXPENSES: | | |
| 19 | 6110 | Network Support Expense | | |
| 20 | 6120 | General Support Expense | | |
| 21 | 6210 | Central Office Switching Expense | | |
| 22 | 6220 | Operator Systems Expense | | |
| 23 | 6230 | Central Office Transmission Expense | | |
| 24 | 6310 | Information Origination/Termination Expense | | |
| 25 | * 6410 | Cable and Wire Facilities Expense | | |
| 26 | ^ 6431 | Aerial Wire Expense | | |
| 27 | ^ 6441 | Conduit Systems Expense | | |
| 28 | 6510 | Other Property, Plant & Equipment Expense | | |
| 29 | 6530 | Network Operations Expense | | |
| 30 | 6540 | Access Expense | | |
| 31 | 6560 | Depreciation and Amortization Expense | | |
| 32 | 6610 | Marketing | | |
| 33 | 6620 | Services | | |
| 34 | 6710 | Executive and Planning | | |
| 35 | 6720 | General and Administrative | | |
| 36 | 6790 | Provision for Uncollectible Notes Receivable | | |
| 37 | | Total Operating Expenses (Sum L.19 to L.36-L.26-L.27) | | |
| 38 | 7100 | Other Operating Income and Expense | | |
| 39 | 7200 | Operating Taxes | | |
| 40 | | Net Operating Income (L.17-L.37+L.38-L.39) | | |

^ Subaccount of the account marked with a *.

Average Rate Base - Total State

Year: 2007

| Line No. | Acct. No. (a) | Description (b) | This Year (c) | Last Year (d) |
|----------|---------------|--|----------------|------------------|
| 1 | 2001 | Telecommunications Plant in Service | 9955287 | 8364788 |
| 2 | 3100 | Accumulated Depreciation | 5706463 | 5232020 |
| 3 | 2002 | Property Held for Future Telecommunications Use | | |
| 4 | 3200 | Accumulated Depreciation - 2002 | | |
| 5 | 1220 | Materials and Supplies (regulated & nonregulated) | 59983 | 56523 |
| 6 | 4340 | Noncurrent Deferred Operating Income Taxes | | |
| 7 | | Pre-1971 Unamortized Investment Tax Credits | | |
| 8 | | Cash Working Capital (if allowed by Commission) | | |
| 9 | | Total Average Rate Base (L.1-L.2+L.3-L.4+L.5-L.6-L.7+L.8) | 4308807 | 3189290.5 |

Average Rate Base - Intrastate

| Line No. | Acct. No. (a) | Description (b) | This Year (c) | Last Year (d) |
|----------|---------------|--|-----------------------|---------------|
| 1 | 2001 | Telecommunications Plant in Service | have by total company | |
| 2 | 3100 | Accumulated Depreciation | | |
| 3 | 2002 | Property Held for Future Telecommunications Use | | |
| 4 | 3200 | Accumulated Depreciation - 2002 | | |
| 5 | 1220 | Materials and Supplies | | |
| 6 | 4340 | Noncurrent Deferred Operating Income Taxes | | |
| 7 | | Pre-1971 Unamortized Investment Tax Credits | | |
| 8 | | Cash Working Capital (if allowed by Commission) | | |
| 9 | | Total Average Rate Base (L.1-L.2+L.3-L.4+L.5-L.6-L.7+L.8) | | |

Average Rate Base - Regulated Intrastate

| Line No. | Acct. No. (a) | Description (b) | This Year (c) | Last Year (d) |
|----------|---------------|--|-----------------------|---------------|
| 1 | 2001 | Telecommunications Plant in Service | have by total company | |
| 2 | 3100 | Accumulated Depreciation | | |
| 3 | 2002 | Property Held for Future Telecommunications Use | | |
| 4 | 3200 | Accumulated Depreciation - 2002 | | |
| 5 | 1220 | Materials and Supplies | | |
| 6 | 4340 | Noncurrent Deferred Operating Income Taxes | | |
| 7 | | Pre-1971 Unamortized Investment Tax Credits | | |
| 8 | | Cash Working Capital (if allowed by Commission) | | |
| 9 | | Total Average Rate Base (L.1-L.2+L.3-L.4+L.5-L.6-L.7+L.8) | | |

Statement of Cash Flows

Year: 2007

| Line No. | Item Description (a) | Amount (b) | Amount (c) |
|----------|--|--|---------------|
| 1 | Increase/(decrease) in Cash & Cash Equivalents | | |
| 2 | Cash Flows from Operating Activities: | (See attached Statement of Cash Flows) | |
| 3 | Net Income | | |
| 4 | Reconciliation Adjustments: | | |
| 5 | Depreciation & Amortization | | |
| 6 | Provision for Accounts Receivable Losses | | |
| 7 | Deferred Income Taxes - Net | | |
| 8 | Unamortized Investment Tax Credits (ITCs) - Net | | |
| 9 | Allowance for Funds Used During Construction (AFUDC) | | |
| 10 | Change in Operating Receivables - Net | | |
| 11 | Change in Materials, Supplies & Inventories - Net | | |
| 12 | Change in Operating Payables & Accrued Liabilities - Net | | |
| 13 | Change in Other Assets & Deferred Credits - Net | | |
| 14 | Change in Other Liabilities & Deferred Credits - Net | | |
| 15 | Other (explained on back of this page) | | |
| 16 | Total Adjustments | | |
| 17 | Net Cash Provided by/(Used in) Operating Activities | | |
| 18 | Cash Inflows/Outflows From Investing Activities: | | |
| 19 | Construction/Acquisition of Property, Plant & Equipment (net of | | |
| 20 | AFUDC & Capital Lease Related Acquisitions) | | |
| 21 | Proceeds from Disposals of Property, Plant & Equipment | | |
| 22 | Investments In & Advances to Affiliates | | |
| 23 | Proceeds from Repayment of Advances | | |
| 24 | Other Investing Activities (explained on back of this page) | | |
| 25 | Net Cash Provided by/(Used in) Investing Activities | | |
| 26 | Cash Flows from Financing Activities: | | |
| 27 | Net Incr./(Decr.) in Short-Term Debt, Original maturity \leq 3 mo. | | |
| 28 | Advances from Affiliates | | |
| 29 | Repayment of Advances from Affiliates | | |
| 30 | Proceeds from Issuances of Long-Term Debt | | |
| 31 | Repayment of Long-Term Debt | | |
| 32 | Payment of Capital Lease Obligations | | |
| 33 | Proceeds from Issuing Common Stock/Parent Co. Equity Investment | | |
| 34 | Repurchase of Treasury Shares | | |
| 35 | Dividends Paid | | |
| 36 | Other Financing Activities (explained on back of this page) | | |
| 37 | Net Cash Provided by Financing Activities | | |
| 38 | Effect of Exchange Rate Changes on Cash | | |
| 39 | Net Increase/(Decrease) in Cash & Cash Equivalents | | |
| 40 | Cash & Cash Equivalents at Beginning of Period | | |
| 41 | Cash & Cash Equivalents at End of Period | | |

SOUTHERN MONTANA TELEPHONE COMPANY
STATEMENT OF CASH FLOWS

goes with Schedule 9

| | Year Ended December 31, | |
|--|-------------------------|------------------|
| | 2007 | 2006 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 214,351 | \$ 172,530 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 597,530 | 553,281 |
| Nonregulated depreciation | 267 | 267 |
| Noncash patronage and stock dividends | (16,668) | (14,581) |
| Allowance for doubtful accounts | 20,266 | - |
| Amortization of discount on certificates of deposit | (32,160) | (43,037) |
| Allowance for funds used during construction | (15,248) | - |
| Realized (gain) loss on sale of investments | (15,495) | 50,203 |
| Change in assets and liabilities: | | |
| Accounts receivable | 9,878 | (139,619) |
| Material and supplies | 30,417 | 189 |
| Other assets | (100) | 18,726 |
| Accounts payable and accrued liabilities | (155,855) | 205,217 |
| Advance payments and customer deposits | (9,495) | 14,048 |
| Net cash provided by operating activities | <u>627,688</u> | <u>817,224</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net additions to telephone plant | (2,755,989) | (931,690) |
| Proceeds from sales of investments | 1,475,070 | 1,726,336 |
| Proceeds from sale of nonregulated investments | - | 22,051 |
| Purchase of investments | <u>(1,191,482)</u> | <u>(949,391)</u> |
| Net cash used by investing activities | <u>(2,472,401)</u> | <u>(132,694)</u> |

SOUTHERN MONTANA TELEPHONE COMPANY
STATEMENT OF CASH FLOWS

| | Year Ended December 31, | |
|--|-------------------------|--------------|
| | 2007 | 2006 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal payments of long-term debt | \$ (1,118,880) | \$ (211,952) |
| Proceeds from long-term debt | 3,380,129 | - |
| Equity distributions | (139,540) | (304,559) |
| Net cash provided (used) by financing activities | 2,121,709 | (516,511) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 276,996 | 168,019 |
| Cash and cash equivalents at beginning of year | 761,478 | 593,459 |
| Cash and cash equivalents at end of year | \$ 1,038,474 | \$ 761,478 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION | | |
| Cash paid during the year for: | | |
| Interest | \$ 93,589 | \$ 56,711 |
| SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES | | |
| Net increase in unrealized loss on available for sale securities | \$ 26,100 | \$ 17,491 |
| Salvage of telephone plant to materials and supplies | \$ 37,527 | \$ - |

See accompanying notes.

Company Name: Southern Montana Telephone Company

SCHEDULE 10

Year: 2007

Receivables and Investments-Affiliated & Nonaffiliated Companies

| Line No. | Name of Affiliate or Company (a) | Account 1160 Temporary Investments (b) | Account 1180 Telecom. Accounts Receivable (c) | Account 1181 Accts. Rec. Allowance (d) | Account 1190 Other Accounts Receivable (e) | Account 1191 Accounts Receivable Allow. - Other (f) | Account 1200 Notes Receivable (g) | Account 1201 Notes Receivable Allowance (h) | Account 1210 Interest and Dividends Receivable (i) | Account 1401 Investments in Affil. Companies (j) | Account 1402 Investments in Nonaffil. Companies (k) |
|----------|----------------------------------|--|---|--|--|---|---|---|--|--|---|
| 1 | Vision Net | | | | | | | | | | 279861 |
| 2 | | | | | | | | | | | |
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| 28 | | | | | | | | | | | |
| 29 | | | | | | | | | | | |
| 30 | Totals | | | | | | | | | | 279861 |

Net Plant in Service - Detail

Year: 2007

| Line No. | Account (a) | Description (b) | Beginning of Year Balance (c) | Additions (d) | Retirements (e) | Sales & Transfers (f) | End of Year Account 2001 Balance (g) | Year End Accumulated Depreciation (h) | End of Year Net Plant Balance (i) |
|----------|-------------|-----------------------------------|-------------------------------|---------------|-----------------|-----------------------|--------------------------------------|---------------------------------------|-----------------------------------|
| 1 | * 2110 | Land and Support Assets | 1460927 | 149840 | 56918 | -74240 | 1479609 | 1199884 | 279725 |
| 2 | ^ 2111 | Land | 38451 | | | | 38451 | | 38451 |
| 3 | ^ 2112 | Motor Vehicles | 286114 | 121328 | 56918 | -74240 | 276284 | 276284 | |
| 4 | ^ 2113 | Aircraft | | | | | | | |
| 5 | ^ 2114 | Special Purpose Vehicles | | | | | | | |
| 6 | ^ 2115 | Garage Work Equipment | | | | | | | |
| 7 | ^ 2116 | Other Work Equipment | 467578 | | | | 467578 | 470897 | -3319 |
| 8 | ^ 2121 | Buildings | 622793 | 6720 | | | 629513 | 415077 | 214436 |
| 9 | ^ 2122 | Furniture | | | | | | | |
| 10 | ^ 2123 | Office Equipment (inc. furniture) | 19504 | 21792 | | | 41296 | 20200 | 21096 |
| 11 | ^ 2124 | General Purpose Computers | 26487 | | | | 26487 | 17426 | 9061 |
| 12 | 2211 | Analog Electronic Switching | | | | | | | |
| 13 | 2212 | Digital Electronic Switching | | | | | | | |
| 14 | 2215 | Electro-Mechanical Switching | 1551721 | 53191 | 7334 | -6350 | 1591228 | 1045872 | 545356 |
| 15 | 2220 | Operator Systems | | | | | | | |
| 16 | 2231 | Radio Systems | | | | | | | |
| 17 | 2232 | Circuit Equipment | 726784 | 468466 | 17622 | 70 | 1177698 | 576489 | 601209 |
| 18 | * 2310 | Information Orig & Term Equip | 18527 | | | | 18527 | 18527 | |
| 19 | ^ 2311 | Station Apparatus | 18527 | | | | 18527 | 18527 | |
| 20 | ^ 2321 | Customer Premises Wiring | | | | | | | |
| 21 | ^ 2341 | Large Private Branch Exchanges | | | | | | | |
| 22 | ^ 2351 | Public Telephone Term. Equip. | | | | | | | |
| 23 | ^ 2362 | Other Terminal Equipment | | | | | | | |
| 24 | 2411 | Poles | | | | | | | |
| 25 | * 2420 | Cable and Wire Facilities | 4976380 | 1915554 | | 17239 | 6909173 | 3131223 | 3777950 |
| 26 | ^ 2421 | Aerial Cable | 33375 | | | | 33375 | 21048 | 12327 |
| 27 | ^ 2422 | Underground Cable | 4943005 | 1915554 | | 17239 | 6875798 | 3110175 | 3765623 |
| 28 | ^ 2423 | Buried Cable | | | | | | | |
| 29 | ^ 2424 | Submarine Cable | | | | | | | |
| 30 | ^ 2425 | Deep Sea Cable | | | | | | | |
| 31 | ^ 2426 | Intrabuilding Network Cable | | | | | | | |
| 32 | 2431 | Aerial Wire | | | | | | | |
| 33 | 2441 | Conduit Systems | | | | | | | |
| 34 | | Totals | 8734339 | 2587051 | 81874 | -63281 | 11176235 | 5971995 | 5204240 |

^ Subaccount of the account marked with a *.

Analysis of Plant Held for Future Use

Year: 2007

| Line No. | Location and Description of Property (a) | Date Included in Account 2002 (b) | Book Cost of Property at Beginning of Year (c) | Additions During the Year (d) | Retirements During the Year (e) | Transfers and Adjustments Charges and (Credits) (f) | Book Cost of Property at End of Year (g) |
|----------|--|-----------------------------------|--|-------------------------------|---------------------------------|---|--|
| 1 | None | | | | | | |
| 2 | | | | | | | |
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| 29 | | | | | | | |
| 30 | Totals (Sum L.1 to L.29) | | | | | | |

Average Cost of Long Term Debt

Year: 2007

| Line No. | Description (a) | Issue Date (b) | Maturity Date (c) | Principal Amount (d) | Gross Proceeds (e) | Net Proceeds (f) | Net Per \$100 (g) | Outstanding Per Balance Sheet (h) | Yield to Maturity (i) | Annual Net Cost (j) | Amortization of Premium or Discount (k) | Total Cost (%) (l) |
|----------|-----------------|----------------|-------------------|----------------------|--------------------|------------------|-------------------|-----------------------------------|-----------------------|---------------------|---|--------------------|
| 1 | RUS | Aug-81 | 2016-2023 | 4087000 | | | | 1338732 | | 54035 | | 2.00% |
| 2 | Note Payable | Oct-01 | 2010 | 665000 | | | | 225051 | | 21191 | | 7.50% |
| 3 | RDUP | Mar-07 | 2026 | 2480129 | | | | 2480129 | | 16141 | | 5.00% |
| 4 | | | | | | | | | | | | |
| 5 | | | | | | | | | | | | |
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| 29 | | | | | | | | | | | | |
| 30 | Total | | | 7232129 | | | | 4043912 | | 91367 | | 2.26% |

Year: 2007

Cost of Preferred Stock

| Line No. | Description (a) | Date of Issuance (b) | Method of Offering (c) | Call Redemption Price (d) | Par Value Of Issue (e) | Gross Proceeds Amounts (f) | Net Proceeds Amounts (g) | Net Proceeds Per \$100 (h) | Cost of Money (i) | Principal Outstanding (j) | Annual Cost (k) | Embedded Cost (l) |
|----------|--------------------------|----------------------|------------------------|---------------------------|------------------------|----------------------------|--------------------------|----------------------------|-------------------|---------------------------|-----------------|-------------------|
| 1 | None | | | | | | | | | | | |
| 2 | | | | | | | | | | | | |
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| 29 | | | | | | | | | | | | |
| 30 | Totals (Sum L.1 to L.29) | | | | | | | | | | | |

Analysis of Common Stock

Year: 2007

| Line No. | (a) | Avg. Number of Shares Outstanding (b) | Book Value (per share) (c) | Earnings (per share) (d) | Dividends (per share) (e) | Retention Ratio (f) | Market Price High (g) Low (h) | Price/Earnings Ratio (i) |
|----------|-------------------------|---------------------------------------|----------------------------|--------------------------|---------------------------|---------------------|-------------------------------|--------------------------|
| 1 | Year Ended December 31: | | | | | | | |
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| 7 | | | | | | | | |
| 8 | Month by Month Data: | | | | | | | |
| 9 | January | | | | | | | |
| 10 | February | | | | | | | |
| 11 | March | | | | | | | |
| 12 | April | | | | | | | |
| 13 | May | | | | | | | |
| 14 | June | | | | | | | |
| 15 | July | | | | | | | |
| 16 | August | | | | | | | |
| 17 | September | | | | | | | |
| 18 | October | | | | | | | |
| 19 | November | | | | | | | |
| 20 | December | | | | | | | |
| 21 | | | | | | | | |
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| 23 | | | | | | | | |

Privately Held Stock.

Not applicable; under 5,000 access lines

Capital Stock and Funded Debt Reacquired or Retired During the Year

Year: 2007

| Line No. | Description of Security (a) | Call or Retirement Date (b) | Number of Shares (c) | Principal Amount (d) | Reacquisition or Retirement Cost (e) | Gain or (Loss) (f) | Retirement or Reacquisition (g) |
|----------|-----------------------------|-----------------------------|----------------------|----------------------|--------------------------------------|--------------------|---------------------------------|
| 1 | None | | | | | | |
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| 29 | | | | | | | |
| 30 | Totals (Sum L.1 to L.29) | | | | | | |

Total Company Expense Matrix

| Line No. | Acct. No. (a) | Description (b) | Salaries and Wages (c) | Benefits (d) | Rents (e) | Other Expenses (f) | Clearances (g) | Total (h) |
|----------|------------------|---|---|-----------------|--------------|-----------------------|-------------------|--------------|
| 1 | * | Network Support Expense | Not applicable under 5,000 access lines | | | | | |
| 2 | ^ | Motor Vehicle Expense | | | | | | |
| 3 | ^ | Aircraft Expense | | | | | | |
| 4 | ^ | Special Purpose Vehicles Expense | | | | | | |
| 5 | ^ | Garage Work Equipment Expense | | | | | | |
| 6 | ^ | Other Work Equipment Expense | | | | | | |
| 7 | * | General Support Expense | | | | | | |
| 8 | ^ | Land and Building Expense | | | | | | |
| 9 | ^ | Furniture and Artworks Expense | | | | | | |
| 10 | ^ | Office Equipment Expense | | | | | | |
| 11 | ^ | General Purpose Computers Expense | | | | | | |
| 12 | * | Central Office Switching Expense | | | | | | |
| 13 | ^ | Analog Electronic Expense | | | | | | |
| 14 | ^ | Digital Electronic Expense | | | | | | |
| 15 | ^ | Electro-Mechanical Expense | | | | | | |
| 16 | | Operator Systems Expense | | | | | | |
| 17 | * | Central Office Transmission Expense | | | | | | |
| 18 | ^ | Radio Systems Expense | | | | | | |
| 19 | ^ | Circuit Equipment Expense | | | | | | |
| 20 | * | Information Origination/Termination Expense | | | | | | |
| 21 | ^ | Station Apparatus Expense | | | | | | |
| 22 | ^ | Large Private Branch Exchange Expense | | | | | | |
| 23 | ^ | Public Telephone Terminal Equipment Exp. | | | | | | |
| 24 | ^ | Other Terminal Equipment Expense | | | | | | |
| 25 | * | Cable and Wire Facilities Expense | | | | | | |
| 26 | ^ | Poles Expense | | | | | | |
| 27 | ^ | Aerial Cable Expense | | | | | | |
| 28 | ^ | Underground Cable Expense | | | | | | |
| 29 | ^ | Buried Cable Expense | | | | | | |
| 30 | ^ | Submarine Cable Expense | | | | | | |
| 31 | ^ | Deep Sea Cable Expense | | | | | | |
| 32 | ^ | Intrabuilding Network Cable Expense | | | | | | |
| 33 | ^ | Aerial Wire Expense | | | | | | |
| 34 | | Subtotals | | | | | | |

^ Subaccount of the account marked with a *

Year: 2007

Total Company Expense Matrix

| Line No. | Acct. No. (a) | Description (b) | Salaries and Wages (c) | Benefits (d) | Rents (e) | Other Expenses (f) | Clearances (g) | Total (h) |
|----------|---------------|--|------------------------|--------------|-----------|--------------------|----------------|-----------|
| 35 | ^ | Conduit Systems Expense | | | | | | |
| 36 | | Other Property Expenses | | | | | | |
| 37 | * | Network Operations Expense | | | | | | |
| 38 | ^ | Power Expense | | | | | | |
| 39 | ^ | Network Administration Expense | | | | | | |
| 40 | ^ | Testing Expense | | | | | | |
| 41 | ^ | Plant Operations Expense | | | | | | |
| 42 | ^ | Engineering Expense | | | | | | |
| 43 | | Access Expense | | | | | | |
| 44 | | Depreciation - Telecomm. Plant in Service | | | | | | |
| 45 | | Depreciation-Prop. for Future Telecom. Use | | | | | | |
| 46 | | Amortization Expense - Tangible | | | | | | |
| 47 | | Amortization Expense - Intangible | | | | | | |
| 48 | | Amortization - Other | | | | | | |
| 49 | * | Marketing | | | | | | |
| 50 | ^ | Product Management | | | | | | |
| 51 | ^ | Sales | | | | | | |
| 52 | ^ | Product Advertising | | | | | | |
| 53 | | Call Completion Services | | | | | | |
| 54 | | Number Services | | | | | | |
| 55 | | Customer Services | | | | | | |
| 56 | | Executive | | | | | | |
| 57 | | Planning | | | | | | |
| 58 | | Accounting and Finance | | | | | | |
| 59 | | External Relations | | | | | | |
| 60 | | Human Relations | | | | | | |
| 61 | | Information Management | | | | | | |
| 62 | | Legal | | | | | | |
| 63 | | Procurement | | | | | | |
| 64 | | Research and Development | | | | | | |
| 65 | | Other General and Administrative | | | | | | |
| 66 | | Provision for Uncollectible Notes Receivable | | | | | | |
| 67 | | Totals | | | | | | |

^ Subaccount of the account marked with a *.

Year: 2007

Total State Expense Matrix

| Line No. | Acct. No. (a) | Description (b) | Salaries and Wages (c) | Benefits (d) | Rents (e) | Other Expenses (f) | Clearances (g) | Total (h) |
|----------|---------------|---|---|--------------|-----------|--------------------|----------------|-----------|
| 1 | * | Network Support Expense | Not applicable under 5,000 access lines | | | | | |
| 2 | ^ | Motor Vehicle Expense | | | | | | |
| 3 | ^ | Aircraft Expense | | | | | | |
| 4 | ^ | Special Purpose Vehicles Expense | | | | | | |
| 5 | ^ | Garage Work Equipment Expense | | | | | | |
| 6 | ^ | Other Work Equipment Expense | | | | | | |
| 7 | * | General Support Expense | | | | | | |
| 8 | ^ | Land and Building Expense | | | | | | |
| 9 | ^ | Furniture and Artworks Expense | | | | | | |
| 10 | ^ | Office Equipment Expense | | | | | | |
| 11 | ^ | General Purpose Computers Expense | | | | | | |
| 12 | * | Central Office Switching Expense | | | | | | |
| 13 | ^ | Analog Electronic Expense | | | | | | |
| 14 | ^ | Digital Electronic Expense | | | | | | |
| 15 | ^ | Electro-Mechanical Expense | | | | | | |
| 16 | | Operator Systems Expense | | | | | | |
| 17 | * | Central Office Transmission Expense | | | | | | |
| 18 | ^ | Radio Systems Expense | | | | | | |
| 19 | ^ | Circuit Equipment Expense | | | | | | |
| 20 | * | Information Origination/Termination Expense | | | | | | |
| 21 | ^ | Station Apparatus Expense | | | | | | |
| 22 | ^ | Large Private Branch Exchange Expense | | | | | | |
| 23 | ^ | Public Telephone Terminal Equipment Exp. | | | | | | |
| 24 | ^ | Other Terminal Equipment Expense | | | | | | |
| 25 | * | Cable and Wire Facilities Expense | | | | | | |
| 26 | ^ | Poles Expense | | | | | | |
| 27 | ^ | Aerial Cable Expense | | | | | | |
| 28 | ^ | Underground Cable Expense | | | | | | |
| 29 | ^ | Buried Cable Expense | | | | | | |
| 30 | ^ | Submarine Cable Expense | | | | | | |
| 31 | ^ | Deep Sea Cable Expense | | | | | | |
| 32 | ^ | Intrabuilding Network Cable Expense | | | | | | |
| 33 | ^ | Aerial Wire Expense | | | | | | |
| 34 | | Subtotals | | | | | | |

^ Subaccount of the account marked with a *

Company Name: Southern Montana Telephone Company

SCHEDULE 18

Page 2 of 2

Year: 2007

Total State Expense Matrix

| Line No. | Acct. No. (a) | Description (b) | Salaries and Wages (c) | Benefits (d) | Rents (e) | Other Expenses (f) | Clearances (g) | Total (h) |
|----------|---------------|--|------------------------|--------------|-----------|--------------------|----------------|-----------|
| 35 | 6441 | Conduit Systems Expense | | | | | | |
| 36 | 6510 | Other Property Expenses | | | | | | |
| 37 | 6530 | Network Operations Expense | | | | | | |
| 38 | 6531 | Power Expense | | | | | | |
| 39 | 6532 | Network Administration Expense | | | | | | |
| 40 | 6533 | Testing Expense | | | | | | |
| 41 | 6534 | Plant Operations Expense | | | | | | |
| 42 | 6535 | Engineering Expense | | | | | | |
| 43 | 6540 | Access Expense | | | | | | |
| 44 | 6561 | Depreciation - Telecomm. Plant in Service | | | | | | |
| 45 | 6562 | Depreciation-Prop. for Future Telecom. Use | | | | | | |
| 46 | 6563 | Amortization Expense - Tangible | | | | | | |
| 47 | 6564 | Amortization Expense - Intangible | | | | | | |
| 48 | 6565 | Amortization - Other | | | | | | |
| 49 | 6610 | Marketing | | | | | | |
| 50 | 6611 | Product Management | | | | | | |
| 51 | 6612 | Sales | | | | | | |
| 52 | 6613 | Product Advertising | | | | | | |
| 53 | 6621 | Call Completion Services | | | | | | |
| 54 | 6622 | Number Services | | | | | | |
| 55 | 6623 | Customer Services | | | | | | |
| 56 | 6711 | Executive | | | | | | |
| 57 | 6712 | Planning | | | | | | |
| 58 | 6721 | Accounting and Finance | | | | | | |
| 59 | 6722 | External Relations | | | | | | |
| 60 | 6723 | Human Relations | | | | | | |
| 61 | 6724 | Information Management | | | | | | |
| 62 | 6725 | Legal | | | | | | |
| 63 | 6726 | Procurement | | | | | | |
| 64 | 6727 | Research and Development | | | | | | |
| 65 | 6728 | Other General and Administrative | | | | | | |
| 66 | 6790 | Provision for Uncollectible Notes Receivable | | | | | | |
| 67 | | Totals | | | | | | |

^ Subaccount of the account marked with a *

Pension Costs

Year: 2007

| | | | | |
|----|--|----------------------------------|-----------|----------|
| 1 | Plan Name _____ | | | |
| 2 | Defined Benefit Plan? Yes _____ | Defined Contribution Plan? _____ | | |
| 3 | Actuarial Cost Method? _____ | IRS Code: _____ | | |
| 4 | Annual Contribution by Employer: \$76,888 | Is the Plan Over Funded? _____ | | |
| 5 | | | | |
| | Item | Current Year | Last Year | % Change |
| 6 | Change in Benefit Obligation | | | |
| 7 | Benefit obligation at beginning of year | | | |
| 8 | Service cost | | | |
| 9 | Interest Cost | | | |
| 10 | Plan participants' contributions | | | |
| 11 | Amendments | | | |
| 12 | Actuarial Gain | | | |
| 13 | Acquisition | | | |
| 14 | Benefits paid | | | |
| 15 | Benefit obligation at end of year | | | |
| 16 | Change in Plan Assets | | | |
| 17 | Fair value of plan assets at beginning of year | | | |
| 18 | Actual return on plan assets | | | |
| 19 | Acquisition | | | |
| 20 | Employer contribution | | | |
| 21 | Plan participants' contributions | | | |
| 22 | Benefits paid | | | |
| 23 | Fair value of plan assets at end of year | | | |
| 24 | Funded Status | | | |
| 25 | Unrecognized net actuarial loss | | | |
| 26 | Unrecognized prior service cost | | | |
| 27 | Prepaid (accrued) benefit cost | | | |
| 28 | | | | |
| 29 | Weighted-average Assumptions as of Year End | | | |
| 30 | Discount rate | | | |
| 31 | Expected return on plan assets | | | |
| 32 | Rate of compensation increase | | | |
| 33 | | | | |
| 34 | Components of Net Periodic Benefit Costs | | | |
| 35 | Service cost | | | |
| 36 | Interest cost | | | |
| 37 | Expected return on plan assets | | | |
| 38 | Amortization of prior service cost | | | |
| 39 | Recognized net actuarial loss | | | |
| 40 | Net periodic benefit cost | | | |
| 41 | | | | |
| 42 | Montana Intrastate Costs: | | | |
| 43 | Pension Costs | | | |
| 44 | Pension Costs Capitalized | | | |
| 45 | Accumulated Pension Asset (Liability) at Year End | | | |
| 46 | Number of Company Employees: | | | |
| 47 | Covered by the Plan | | | |
| 48 | Not Covered by the Plan | | | |
| 49 | Active | | | |
| 50 | Retired | | | |
| 51 | Deferred Vested Terminated | | | |

Other Post Employment Benefits (OPEBS)

| Item | Current Year | Last Year | % Change |
|---|----------------|-----------|----------|
| 1 Regulatory Treatment: | Not Applicable | | |
| 2 Commission authorized - most recent | | | |
| 3 Docket number: _____ | | | |
| 4 Order number: _____ | | | |
| 5 Amount recovered through rates | | | |
| 6 Weighted-average Assumptions as of Year End | | | |
| 7 Discount rate | | | |
| 8 Expected return on plan assets | | | |
| 9 Medical Cost Inflation Rate | | | |
| 10 Actuarial Cost Method | | | |
| 11 Rate of compensation increase | | | |
| 12 List each method used to fund OPEBs (ie: VEBA, 401(h)) and if tax advantaged: | | | |
| 13 | | | |
| 14 | | | |
| 15 Describe any Changes to the Benefit Plan: | | | |
| 16 | | | |
| 17 TOTAL COMPANY | | | |
| 18 Change in Benefit Obligation | | | |
| 19 Benefit obligation at beginning of year | | | |
| 20 Service cost | | | |
| 21 Interest Cost | | | |
| 22 Plan participants' contributions | | | |
| 23 Amendments | | | |
| 24 Actuarial Gain | | | |
| 25 Acquisition | | | |
| 26 Benefits paid | | | |
| 27 Benefit obligation at end of year | | | |
| 28 Change in Plan Assets | | | |
| 29 Fair value of plan assets at beginning of year | | | |
| 30 Actual return on plan assets | | | |
| 31 Acquisition | | | |
| 32 Employer contribution | | | |
| 33 Plan participants' contributions | | | |
| 34 Benefits paid | | | |
| 35 Fair value of plan assets at end of year | | | |
| 36 Funded Status | | | |
| 37 Unrecognized net actuarial loss | | | |
| 38 Unrecognized prior service cost | | | |
| 39 Prepaid (accrued) benefit cost | | | |
| 40 Components of Net Periodic Benefit Costs | | | |
| 41 Service cost | | | |
| 42 Interest cost | | | |
| 43 Expected return on plan assets | | | |
| 44 Amortization of prior service cost | | | |
| 45 Recognized net actuarial loss | | | |
| 46 Net periodic benefit cost | | | |
| 47 Accumulated Post Retirement Benefit Obligation | | | |
| 48 Amount Funded through VEBA | | | |
| 49 Amount Funded through 401(h) | | | |
| 50 Amount Funded through Other _____ | | | |
| 51 TOTAL | | | |
| 52 Amount that was tax deductible - VEBA | | | |
| 53 Amount that was tax deductible - 401(h) | | | |
| 54 Amount that was tax deductible - Other _____ | | | |
| 55 TOTAL | | | |

Year: 2007

Other Post Employment Benefits (OPEBS) Continued

| | Item | Current Year | Last Year | % Change |
|----|---|--------------|-----------|----------|
| 1 | Number of Company Employees: | | | |
| 2 | Covered by the Plan | | | |
| 3 | Not Covered by the Plan | | | |
| 4 | Active | | | |
| 5 | Retired | | | |
| 6 | Spouses/Dependants covered by the Plan | | | |
| 7 | Montana | | | |
| 8 | Change in Benefit Obligation | | | |
| 9 | Benefit obligation at beginning of year | | | |
| 10 | Service cost | | | |
| 11 | Interest Cost | | | |
| 12 | Plan participants' contributions | | | |
| 13 | Amendments | | | |
| 14 | Actuarial Gain | | | |
| 15 | Acquisition | | | |
| 16 | Benefits paid | | | |
| 17 | Benefit obligation at end of year | | | |
| 18 | Change in Plan Assets | | | |
| 19 | Fair value of plan assets at beginning of year | | | |
| 20 | Actual return on plan assets | | | |
| 21 | Acquisition | | | |
| 22 | Employer contribution | | | |
| 23 | Plan participants' contributions | | | |
| 24 | Benefits paid | | | |
| 25 | Fair value of plan assets at end of year | | | |
| 26 | Funded Status | | | |
| 27 | Unrecognized net actuarial loss | | | |
| 28 | Unrecognized prior service cost | | | |
| 29 | Prepaid (accrued) benefit cost | | | |
| 30 | Components of Net Periodic Benefit Costs | | | |
| 31 | Service cost | | | |
| 32 | Interest cost | | | |
| 33 | Expected return on plan assets | | | |
| 34 | Amortization of prior service cost | | | |
| 35 | Recognized net actuarial loss | | | |
| 36 | Net periodic benefit cost | | | |
| 37 | Accumulated Post Retirement Benefit Obligation | | | |
| 38 | Amount Funded through VEBA | | | |
| 39 | Amount Funded through 401(h) | | | |
| 40 | Amount Funded through other _____ | | | |
| 41 | TOTAL | | | |
| 42 | Amount that was tax deductible - VEBA | | | |
| 43 | Amount that was tax deductible - 401(h) | | | |
| 44 | Amount that was tax deductible - Other | | | |
| 45 | TOTAL | | | |
| 46 | Montana Intrastate Costs: | | | |
| 47 | Pension Costs | | | |
| 48 | Pension Costs Capitalized | | | |
| 49 | Accumulated Pension Asset (Liability) at Year End | | | |
| 50 | Number of Montana Employees: | | | |
| 51 | Covered by the Plan | | | |
| 52 | Not Covered by the Plan | | | |
| 53 | Active | | | |
| 54 | Retired | | | |
| 55 | Spouses/Dependants covered by the Plan | | | |

Payments for Services to Persons Other Than Employees

Year: 2007

| Line No. | Name of Recipient (a) | Nature of Service (b) | Total Company Cost (c) | Total State Cost (d) | Intrastate Cost (e) |
|----------|--|--------------------------|---------------------------|-------------------------|------------------------|
| 1 | Not applicable; under 5,000 access lines | | | | |
| 2 | | | | | |
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| 48 | | | | | |
| 49 | Total | | | | |

Subscriber Line Usage Data

Year: 2007

| Line No. | Description (a) | This Year (b) | % of Total (c) | Last Year (d) | % of Total (e) |
|----------|-------------------------------|---------------|----------------|---------------|----------------|
| 1 | Toll Usage: | | | | |
| 2 | Interstate, InterLATA | 3621721 | 49.65% | 3820780 | 57.25% |
| 3 | Interstate, IntraLATA | 235 | 0.00% | 85 | 0.00% |
| 4 | Total Interstate Usage | 3621956 | 49.65% | 3820865 | 57.25% |
| 5 | Intrastate, InterLATA | 514050 | 7.05% | 435933 | 6.53% |
| 6 | Intrastate, IntraLATA* | 3158669 | 43.30% | 2417348 | 36.22% |
| 7 | Total Intrastate Usage | 3672719 | 50.35% | 2853281 | 42.75% |
| 8 | Total Toll Usage | 7294675 | 100.00% | 6674146 | 100.00% |
| 9 | Centrex | | | | |
| 10 | Local | | | | |
| 11 | Total Minutes | 7294675 | 100.00% | 6674146 | 100.00% |

* includes intraMTA usage total of 669,984, wireless traffic.

Central Office and Access Line Statistics

Year: 2007

| Line No. | Wire Center (a) | Type of Office (b) | Residential (c) | ISDN (d) | ADSL (e) | Lifeline Customers (f) | Residential LMS Customers (g) | Single Line Business (h) | Multi-Line Business (i) | Customer Owned Coin (j) | Company Owned Coin (k) | Other (l) | % of Lines w/ T. Tone (m) | Total Access Lines (n) |
|----------|-----------------|--------------------|-----------------|----------|----------|------------------------|-------------------------------|--------------------------|-------------------------|-------------------------|------------------------|-----------|---------------------------|------------------------|
| 1 | Divide | Digital | 81 | | | 1 | | 8 | 4 | 1 | | | | 94 |
| 2 | Grant | Digital | 88 | | | 1 | | 10 | 3 | 1 | | | | 102 |
| 3 | Jackson | Digital | 274 | | | | | 24 | 9 | 1 | | | | 308 |
| 4 | Wisdom | Digital | 181 | | | 1 | | 19 | 28 | 2 | | | | 230 |
| 5 | Wise River | Digital | 244 | | | 3 | | 17 | 13 | 1 | | | | 275 |
| 6 | | | | | | | | | | | | | | |
| 7 | | | | | | | | | | | | | | |
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| 31 | | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | | |
| 33 | Total | | 868 | | | 6 | | 78 | 57 | 6 | | | | 1009 |

NOTE: Additional blank schedules are being provided for your convenience.

Central Office and Switch Information

Year: 2007

| Line No. | Wire Center (a) | Office Configuration (Host, Remote, Stand alone) (b) | Type of Switch (c) | Switch Vendor/ Manufacturer (d) | Switch Model No. (e) | Switch Line Capacity (f) | Year Deployed (g) |
|----------|--------------------|--|-----------------------|---------------------------------------|-------------------------|-----------------------------|----------------------|
| 1 | 406-267 | Remote | Digital | NTI | DMS-10 | 512 | 1990 |
| 2 | 406-832 | Remote | Digital | NTI | DMS-10 | 512 | 1983 |
| 3 | 406-689-S | Remote | Digital | NTI | DMS-10 | 512 | 1983 |
| 4 | 406-689 | Host | Digital | NTI | DMS-10 | 640 | 1983 |
| 5 | 406-834-J | Remote | Digital | NTI | DMS-10 | 512 | 1983 |
| 6 | 406-834-T | Remote | Digital | NTI | DMS-10 | 512 | 1983 |
| 7 | 406-681 | Remote | Digital | NTI | DMS-10 | 512 | 1983 |
| 8 | | | | | | | |
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| 48 | | | | | | | |

NOTE: Additional blank schedules are being provided for your convenience.

Construction Budget - Montana

Year: 2008

| Line No. | Description (a) | 2008 (b) |
|----------|---|-------------------|
| 1 | Central Office Assets: | |
| 2 | | |
| 3 | | |
| 4 | | |
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| 24 | | |
| 25 | | |
| 26 | | |
| 27 | Total Switching and Central Office Projects over \$500,000 | |
| 28 | Miscellaneous Central Office Projects not over \$500,000 | \$ 302,000 |
| 29 | Total Central Office Budget (Total of Line 27 & Line 28) | \$ 302,000 |
| 30 | Other Projects over \$500,000: | |
| 31 | Grant/Tash Outside Plant Upgrade project | \$ 966,217 |
| 32 | | |
| 33 | | |
| 34 | | |
| 35 | | |
| 36 | | |
| 37 | | |
| 38 | | |
| 39 | | |
| 40 | | |
| 41 | Total Other Projects over \$500,000 | |
| 42 | Miscellaneous projects not over \$500,000 | |
| 43 | Total Construction Budget (Total of Lines 29, 41 & 42) | 302000 |

Montana Total State Construction Expenditures

| Line No. | FCC Part 32 Account No. (a) | Description (b) | This Year (c) | Last Year (d) | Percent Change (e) |
|-----------------|------------------------------------|--|----------------------|----------------------|---------------------------|
| 1 | 2110 | General Support Assets | 149840 | 145471 | 3.00% |
| 2 | 2210 | Central Office Assets | 53191 | 165178 | -67.80% |
| 3 | 2220 | Operator Systems | | 0 | |
| 4 | 2230 | Central Office Transmission | 468466 | 0 | |
| 5 | 2310 | Information/Termination Assets | | 0 | |
| 6 | 2410 | Cable and Wire Facilities Assets | 1915554 | 627153 | 205.44% |
| 7 | 2680 | Amortizable Tangible Assets | | 0 | |
| 8 | 2690 | Intangibles | | 0 | |
| 9 | | Total Construction Expenditures | 2587051 | 937802 | 175.86% |

Montana Employee Counts

Year: 2007

| Line No. | Category (a) | Beginning of Year (b) | End of Year (c) |
|----------|---|--------------------------|--------------------|
| 1 | Executive | 1 | 2 |
| 2 | Office | 3 | 4 |
| 3 | Outside Plant/COE includes construction technicians and splicers | 3 | 3 |
| 4 | | | |
| 5 | | | |
| 6 | | | |
| 7 | <i>note: this is the employee count on the payroll at year end.</i> | | |
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| 40 | | | |
| 41 | | | |
| 42 | | | |
| 43 | Totals (Sum of Lines 1 through 42) | 7 | 9 |

Compensation of Top 5 Corporate Employees - SEC Information

| Line No. | Name/Title (a) | Base Salary (b) | Bonuses (c) | Other Compensation (d) | Total Compensation (e) | Total Compensation Last Year (f) | % Increase Total Compensation (g) |
|----------|-------------------------|--------------------|----------------|---------------------------|---------------------------|-------------------------------------|--------------------------------------|
| 1 | Not applicable | | | | | | |
| 2 | | | | | | | |
| 3 | | | | | | | |
| 4 | | | | | | | |
| 5 | | | | | | | |
| 6 | Totals (Sum L.1 to L.5) | | | | | | |

Montana Composite Statistics

Year: 2007

| Line No. | Account No. | Description (a) | Amount (b) |
|----------|-------------|---|---|
| 1 | | Plant (Intrastate Only) (000 Omitted) | |
| 2 | 2001 | Plant in Service | Not available-Not able to provide this information This would require hiring outside consultants |
| 3 | 2003 - 2004 | Construction Work in Progress | |
| 4 | 2005 | Plant Acquisition Adjustments | |
| 5 | 2002 | Plant Held for Future Use | |
| 6 | 1220 | Materials & Supplies | |
| 7 | | (Less): | |
| 8 | 3100 - 3400 | Depreciation & Amortization Reserves | |
| 9 | 4360.2 | Contributions in Aid of Construction | |
| 10 | | NET BOOK COSTS | |
| 11 | | Revenues & Expenses (Intrastate Only) (000 Omitted) | |
| 12 | 5000 - 5300 | Operating Revenues | |
| 13 | 6560 | Depreciation & Amortization Expenses | |
| 14 | | Federal & State Income Taxes | |
| 15 | | Other Taxes | |
| 16 | | Other Operating Expenses | |
| 17 | | TOTAL Operating Expenses | |
| 18 | | Net Operating Income | |
| 19 | | Other Income | |
| 20 | | Other Deductions | |
| 21 | | NET INCOME | |
| 22 | | Access Lines in Service (Intrastate Only) | |
| 23 | | Residential Access Lines | |
| 24 | | Business Access Lines | |
| 25 | | PBX Access Lines | |
| 26 | | Other Access Lines | |
| 27 | | Total Number of Access Lines | |
| 28 | | Average Number of Calls Per Access Line | |
| 29 | | Local Calls | |
| 30 | | Toll Calls (Intra- or Interstate) | |
| 31 | | Total Number of Calls Per Access Line (Total of Line 29 & Line 30 divided by Line 27) | |
| 32 | | Other Statistics (Intrastate Only) | |
| 33 | | Average Residential Monthly Bill | |
| 34 | | Gross Plant Investment per Access Line | |

Depreciation - Montana Intrastate Regulated

Year: 2007

| Line No. | Acct No. (a) | Description (b) | Composite Rate % (c) | Total Expense \$ (d) |
|----------|--|--|----------------------------|----------------------------|
| 1 | 2112 | Motor Vehicles | 33.0% | 58,219 |
| 2 | 2114 | Special Purpose Vehicles | | |
| 3 | 2115 | Garage Work Equipment | | |
| 4 | 2116 | Other work Equipment | 13.37% | |
| 5 | 2121 | Buildings | 4.2% | 26,184 |
| 6 | 2122 | Furniture | | |
| 7 | 2123.1 | Office Support Equipment (includes furniture) | 11.7% | 696 |
| 8 | 2123.2 | Company Communications Equipment | 9.25% | |
| 9 | 2124 | General Purpose Computers | 20.0% | 5,297 |
| 10 | 2211 | Analog Electronic Switching Equipment | | |
| 11 | 2212 | Digital Electronic Switching Equipment (software is 33%) | 10.0% | 150,531 |
| 12 | 2215 | Step By Step Switching Equipment | | |
| 13 | 2215 | Crossbar Switching Equipment | | |
| 14 | 2220 | Operator System | | |
| 15 | 2231 | Radio Systems | | |
| 16 | 2232 | Circuit DDS | | |
| 17 | 2232 | Circuit Digital | 10.0% | 83,083 |
| 18 | 2232 | Circuit Analog | | |
| 19 | 2351 | Public Telephone Terminating Equipment | | |
| 20 | 2362 | Other Terminal Equipment | | |
| 21 | 2411 | Poles | | |
| 22 | 2421 | Aerial Cable Metallic | | |
| 23 | 2421 | Aerial Cable Nonmetallic | | |
| 24 | 2422 | Underground Cable Metallic | 5.0% | 171,777 |
| 25 | 2422 | Underground Cable Nonmetallic (fiber optic) | 5.0% | 100,213 |
| 26 | 2423 | Buried Cable Metallic | | |
| 27 | 2423 | Buried Cable Nonmetallic | | |
| 28 | 2424 | Submarine Cable Metallic | | |
| 29 | 2424 | Submarine Cable Nonmetallic | | |
| 30 | 2426 | Intrabuilding Network Cable Metallic | | |
| 31 | 2426 | Intrabuilding Network Cable Nonmetallic | | |
| 32 | 2431 | Aerial Wire | 5.0% | 1,530 |
| 33 | 2441 | Conduit Systems | | |
| 34 | | | | |
| 35 | | COMPOSITE TOTAL | | |
| 36 | | | | 597,530 |
| 37 | Please list the Montana Public Service Commission Docket Order No. approving these depreciation rates | | | |
| 38 | | | | |
| 39 | Docket Number 86.5.22 Order Number 5213 | | | |
| 40 | | | | |

Company Name: Southern Montana Telephone Company

SCHEDULE 30a

Amortization - Montana Intrastate Regulated

Year: 2007

| Line No. | Acct No. (a) | Description (b) | Composite Rate % (c) | Total Expense \$ (d) |
|-------------|--|------------------------|-------------------------------|-------------------------------|
| 1 | | | | |
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| 32 | | | | |
| 33 | | | | |
| 34 | | | | |
| 35 | | COMPOSITE TOTAL | | |
| 36 | Please list the Montana Public Service Commission Docket Order No. approving these amortization rates Docket Number _____ Order Number _____ | | | |
| 37 | | | | |
| 38 | | | | |
| 39 | | | | |
| 40 | | | | |

Montana Regulatory Capital Structure & Costs

Year: 2007

| Line No. | Description (a) | % Cap. Str. (b) | % Cost Rate (c) | Weighted Cost (d) |
|----------|--|--------------------|--------------------|----------------------|
| | Commission Accepted - Most Recent | | | |
| 1 | Docket Number | | | |
| 2 | Order Number | | | |
| 3 | | | | |
| 4 | Common Equity | | | |
| 5 | Preferred Stock | | | |
| 6 | Long Term Debt | | | |
| 7 | Other | | | |
| 8 | Total | | | |
| 9 | | | | |
| 10 | Actual at Year End | | | |
| 11 | | | | |
| 12 | Common Equity | | | |
| 13 | Preferred Stock | | | |
| 14 | Long Term Debt | | | |
| 15 | Other | | | |
| 16 | Total | | | |

Network Access - Charges and Revenues

Year: 2007

| Line No. | Description (a) | Access Charges Paid (b) | Access Revenues Received (c) |
|----------|--|----------------------------|---------------------------------|
| 1 | Montana - Total State (both switched & special access) | | 405697 |
| 2 | | | |
| 3 | Montana - Intrastate | | 405697 |
| 4 | | | |
| 5 | Montana - Intrastate Regulated | | 405697 |
| 6 | | | |
| 7 | | | |
| 8 | | | |
| 9 | | | |
| 10 | | | |
| 11 | | | |
| 12 | | | |
| 13 | | | |

Affiliate Transactions - Products & Services Provided to Utility

Year: 2007

| Line No. | Affiliate Name (a) | Products & Services (b) | Method to Determine Price (c) | Charges to Utility (d) | % Total Affil. Revenues (e) | Charges to MT Utility (f) |
|----------|------------------------------|---|-------------------------------|------------------------|-----------------------------|---------------------------|
| 1 | | | | | | |
| 2 | National Information Systems | Computer Service Bureau (Billing, CABs, acct & plant, software maintenance) | Varies | | | \$ 182,328 |
| 3 | | | | | | |
| 4 | | | | | | |
| 5 | | | | | | |
| 6 | GVNW | Consultants | Hourly Rate | | | 38,420 |
| 7 | | (Cost Studies, Separations, Traffic Studies, etc) | | | | |
| 8 | | | | | | |
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| 26 | | | | | | |
| 27 | | | | | | |
| 28 | | | | | | |
| 29 | | | | | | |
| 30 | TOTAL | | | | | \$220,748 |

Affiliate Transactions - Products & Services Provided by Utility

Year: 2007

| Line No. | Affiliate Name (a) | Products & Services (b) | Method to Determine Price (c) | Charges to Affiliate (d) | % Total Affil. Revenues (e) | Charges to MT Utility (f) |
|----------|--------------------|-------------------------|-------------------------------|--------------------------|-----------------------------|---------------------------|
| 1 | | | | | | |
| 2 | | | | | | |
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| 27 | | | | | | |
| 28 | | | | | | |
| 29 | | | | | | |
| 30 | TOTAL | | | | | |

Montana Intrastate Regulated Earned Rate of Return

Year: 2007

| Line No. | Description Rate Base (a) | This Year (b) | Last Year (c) | Percent Change (d) |
|----------|--|---------------------|---------------------|--------------------------|
| 1 | | | | |
| 2 | 2001 Plant in Service | 9,955,290 | 8,364,788 | 19.01% |
| 3 | 2002 Prop. Held for Future Telecommunications Use | | | |
| 4 | 3100-3200 (Less) Accumulated Depreciation | (5,706,465) | (5,232,020) | -9.07% |
| 5 | Plant in Service | 4,248,825 | 3,132,768 | 35.63% |
| 6 | | | | |
| 7 | Additions | | | |
| 8 | 1220 Materials & Supplies | 59,983 | 56,523 | 6.12% |
| 9 | 1280 Prepayments | | | |
| 10 | Other Additions | | | |
| 11 | TOTAL Additions | 59,983 | 56,523 | 6.12% |
| 12 | | | | |
| 13 | Deductions | | | |
| 14 | 4100 Current Deferred Operating Income Taxes | | | |
| 15 | 4320 Unamortized Operating Investment Tax Credits | | | |
| 16 | 4340 Noncurrent Deferred Operating Income Taxes | | | |
| 17 | Customer Advances for Construction | | | |
| 18 | Other Deductions | | | |
| 19 | TOTAL Deductions | | | |
| 20 | TOTAL Rate Base | 4,308,808 | 3,189,291 | 35.10% |
| 21 | | | | |
| 22 | Net Earnings | 193,351 | 196,196 | -1.45% |
| 23 | | | | |
| 24 | Rate of Return on Average Rate Base | 4.49% | 6.15% | -27.06% |
| 25 | | | | |
| 26 | Rate of Return on Average Equity | | | |
| 27 | | | | |
| 28 | Major Normalizing Adjustments & Commission | | | |
| 29 | <u>Ratemaking adjustments to Utility Operations</u> | | | |
| 30 | | | | |
| 31 | this represents year end balances divided by 2, please call 209-955-6103, Lorrie Bernstein | | | |
| 32 | if you need more | | | |
| 33 | | | | |
| 34 | | | | |
| 35 | | | | |
| 36 | | | | |
| 37 | | | | |
| 38 | | | | |
| 39 | | | | |
| 40 | | | | |
| 41 | | | | |
| 42 | | | | |
| 43 | Adjusted Rate of Return on Average Rate Base | | | |
| 44 | | | | |
| 45 | Adjusted Rate of Return on Average Equity | | | |

Other Taxes Paid

Year: 2007

| Line No. | Description (a) | Last Year (b) | This Year (c) |
|----------|---|---------------|---------------|
| 1 | Montana Telephone Company License Tax | - | |
| 2 | Montana Public Service Commission Tax (PSC TX) | 1,350 | 907 |
| 3 | Montana Consumer Counsel Tax (Consum Coun TX) | 376 | 247 |
| 4 | 911 Emergency Telephone Fee (in payables) | 1,485 | 3,473 |
| 5 | Montana Telecommunications Access Service (TDD) payab | 297 | 297 |
| 6 | Montana Corporate License Tax | | |
| 7 | Personal Property Tax | | |
| 8 | Real Property Tax | 43,281 | 45,543 |
| 9 | FCC Reg Fee | 494 | 288 |
| 10 | | | |
| 11 | | | |
| 12 | Total | 47,283 | 50755 |

SCHEDULE 37

Universal Service Funds Received

Year: 2007

| Line No. | Description (a) | Last Year (b) | This Year (c) |
|----------|-------------------------------------|----------------|---------------|
| 13 | Funds received from Montana Sources | | |
| 14 | Funds received from Federal Sources | 281,381 | 284,658 |
| 15 | | | |
| 16 | | | |
| 17 | | | |
| 18 | | | |
| 19 | | | |
| 20 | | | |
| 21 | | | |
| 22 | | | |
| 23 | | | |
| 24 | Total | 281,381 | 284658 |